

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-10 IO-13 NEA-11 NSAE-00 ICA-11
OPIC-03 SP-02 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
STR-07 PA-01 DOE-15 SOE-02 DOTE-00 /136 W
-----078316 151732Z /72

R 151658Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9416
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

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USEEC, USOECD ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: GERMAN GOVERNMENT GETS TRUCULENT ABOUT
UNSOLICITED DOMESTIC AND FOREIGN
ADVICE ON ECONOMIC POLICY

1. SUMMARY: SEVERAL GOVERNMENT SPOKESMEN HAVE IN
RECENT DAYS GIVEN A PRICKLY RESPONSE TO OUTSIDE ADVICE
ON HOW THE FRG SHOULD BE CONDUCTING ITS ECONOMIC POLICY.
THE DIRECT TARGET OF GOVERNMENT DISPLEASURE IS THE
COUNCIL OF ECONOMIC EXPERTS WHICH IS PREPARING A SPECIAL
REVIEW OF THE ECONOMIC SITUATION REPORTEDLY GIVING A
PESSIMISTIC APPRAISAL AND RECOMMENDING POLICY MEASURES.
AN ECONOMICS MINISTRY SPOKESMAN HAS ALSO AIMED SEVERAL
BARBS AT FOREIGN CRITICS, MOST NOTABLY AT THE OECD,
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INSISTING THAT THE FRG WILL NOT YIELD TO PRESSURES FOR
MORE SHORT-TERM MEASURES. DESPITE GOVERNMENT DENIALS,
THE PRESS CONTINUES TO SPECULATE ABOUT A PACKAGE OF TAX
AND EXPENDITURE MEASURES WHICH PRESUMABLY WOULD HAVE
SOME STIMULATORY IMPACT. END SUMMARY.

2. LAST WEEK THE COUNCIL OF ECONOMIC EXPERTS (A GROUP

OF FIVE APPOINTED BY BUT INDEPENDENT OF THE GOVERNMENT)
LET IT BE KNOWN THAT IT WAS PREPARING A SPECIAL REVIEW
OF THE ECONOMIC SITUATION TO BE RELEASED BEFORE THE
BREMEN EC AND BONN ECONOMIC SUMMITS. PROBABLY WELL-
INFORMED SPECULATION HELD THAT THE COUNCIL WOULD GIVE
A PESSIMISTIC ASSESSMENT AND SUGGEST NEW POLICY MEASURES
-- PARTICULARLY IN THE TAX FIELD. SUCH ADVICE COULD
NOT COME AT A MORE UNWANTED MOMENT FOR THE SPD PART OF
THE COALITION. A FEW DAYS LATER SPD BUNDESTAG MEMBER
ROTH GAVE HIS PARTY'S RESPONSE IN EFFECT TELLING THE
COUNCIL NOT TO MEDDLE IN POLITICS.

3. THE CONTROVERSY HEATED UP ON JUNE 14 WHEN GOVERNMENT
SPOKESMAN ARMIN GRUENEWALD EXPRESSED REGRET OVER THE
DECISION OF THE COUNCIL, SAYING SUCH A REPORT HAD NOT
BEEN REQUESTED AND WAS NOT NEEDED. GRUENEWALD ADDED
THAT THE GOVERNMENT WOULD NOT ADOPT STRONGER STIMULATORY
MEASURES JUST TO PLEASE OTHER COUNTRIES.

4. THE COUNCIL HAS NOT PUBLICLY REACTED TO GOVERNMENT
COERCION. ECONOMICS MINISTER LAMBSDORFF WILL CONFER
WITH THE COUNCIL ABOUT ITS REVIEW. ON THE ONE HAND,
LAMBSDORFF HAS BEEN CRITICAL OF PROPOSALS FOR MORE
STIMULATION AT THIS POINT, ON THE OTHER, HE HAS SAID
THAT THE FRG IS WILLING TO MAKE ITS CONTRIBUTION TO AN
INTERNATIONAL PROGRAM FOR ECONOMIC GROWTH. HE ALSO IS
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ON RECORD AS PREFERRING, IF STIMULATION IS NEEDED, TAX
MEASURES WHICH THE COUNCIL PRESUMABLY ADVOCATES, TO
MORE EXPENDITURES.

5. IN THE MEANWHILE, THE HANDELSBLATT ON JUNE 15 HAS
REPORTED THAT THE GOVERNMENT AND THE COALITION PARTIES
ARE CONSIDERING SEVERAL TAX AND EXPENDITURE CHANGES,
INCLUDING A MOVING UP OF THE SCHEDULE FOR TAX REFORM
FROM 1980 TO 1979.

6. THE GOVERNMENT'S BRISTLY ATTITUDE TOWARD CRITICISM
ALSO INCLUDES THAT COMING FROM ABROAD. ACCORDING TO
PRESS REPORTS, ECONOMICS MINISTRY STATE SECRETARY
OTTO SCHLECHT TOLD A GERMAN/FINN TRADE ASSOCIATION
AUDIENCE ON JUNE 13 THAT THE FRG CONTRIBUTION TO THE
STIMULATION OF INTERNATIONAL GROWTH CANNOT CONSIST
OF NEW, SHORT-TERM CYCLICAL PROGRAMS. SCHLECHT
REPORTEDLY CASTIGATED "FLASH IN THE PAN" (SONNEN-
WENDFEUER) POLICIES FOR AN ECONOMIC SUMMIT AS
SENSELESS WHEN WHAT IS NEEDED IS AN IMPROVEMENT IN
THE ECONOMIC STRUCTURE.

7. SCHLECHT ASSERTED THAT SUPPORTERS OF THE

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LOCOMOTIVE THEORY HAS OVERESTIMATED IN THEIR MODELS AND
CALCULATIONS THE INTERNATIONAL MULTIPLIER EFFECTS AND
STIMULATORY IMPACT WHICH A PICKUP IN THE GERMAN ECONOMY
WOULD HAVE ON THE REST OF THE WORLD. HE CLAIMED THAT
THESE CALCULATIONS WERE BASED ON TIME SERIES DATA WHICH
WENT BACK TO THE FIXED EXCHANGE RATE PERIOD AND WERE,
HENCE, NO LONGER VALID. HE DESCRIBED THE TARGET GROWTH
RATES OF 4.5 PERCENT FOR THE EUROPEAN COUNTRIES AND OF
FIVE PERCENT FOR THE FRG AS A FATA MORGANA. SUCH
SHORT-TERM GROWTH GOALS, HE SAID, COULD NOT BE ATTAINED
WITH THE BEST OF WILL AND THE EFFORT WOULD END WITH A
"HANGOVER" WHICH WOULD NOT BUILD CONFIDENCE. HOWEVER,
THE FRG SHOULD NOT TAKE REFUGE IN "RESIGNED, DEFENSIVE,
ACCOMMODATIVE STRATEGY" SINCE IT SHOULD ACHIEVE FOUR
PERCENT GROWTH IN THE MEDIUM-TERM. SCHLECHT CALLED
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ON ALL COUNTRIES TO PROCEED TOGETHER BUT EACH TO MAKE
THE NECESSARY ATRUCTURAL ADJUSTMENTS TO ASSURE GROWTH
AND EMPLOYMENT.

8. COMMENT: THE SCHLECHT SPEECH'S ALMOST OBSTINATE
TONE APPARENTLY RESULTED FROM PRESS EDITING AND THE USE
OF CATCHY PHRASES. ECONOMICS MINISTRY CONTACTS INDICATE
TO US THAT THE GERMAN POSITION REGARDING NEGOTIATION OF
AN ECONOMIC PACKAGE FOR THE SUMMIT HAS NOT CHANGED. IN
THE MEANTIME THE VARIOUS PUBLIC COMMENTS MAY "LOCK IN"
THE POSITION OF MANY PLAYERS AND THUS MAY MAKE EVENTUAL
AGREEMENT ON ANY STIMULATIVE PACKAGE MORE DIFFICULT.
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